

Public Session
Defense Business Board
Quarterly Meeting
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**Subject: “Reducing Overhead and Improving DoD’s
Business Operations” by Arnold Punaro, Task Group Chair**

AS DELIVERED

OVERVIEW

“On May 17, 2010, Secretary Robert Gates directed the Defense Business Board (DBB) to form a task group to make recommendations on options to materially reduce the Department of Defense’s (DoD) overhead and increase the efficiency of the Department’s business operations. Specifically, Secretary Gates asked that we identify opportunities to achieve short and long-term budget savings and to include process and organizational changes that will yield long-term operational efficiencies.

Today I am here to present our Task Group's initial observations and to share with you a few facts and figures that have re-affirmed, at least in our minds, why the Secretary's guidance to tackle the Department's overhead is not just a good business decision, but an imperative to allow the Department's resources today, and in the future, to obtain the maximum combat power for the dollars we spend.

Our task force wants to emphasize this is not about cutting the top-line, but reducing overhead, obtaining efficiencies, eliminating non-core functions, and changing antiquated and costly personnel policies in order to shift their funds to combat where it's needed.

I want to thank our task group members, our staff, and the others inside DoD who are working on various elements of this very demanding, data-centric project for all their support.

Our process to date has been to review the documented studies and available data produced by the Board and other DoD - related entities on this subject, to discuss the issues with senior leaders, and to carefully consider previous DBB and other Department recommendations that remain valid as we develop new ones.

INTRODUCTION

I might point out that a number of the DBB members to include our Chairman Michael Bayer, Dov Zakheim, Denis Bovin and others worked on an effort I chaired in 1997 for then Secretary Cohen where we spent almost a year making recommendations on many of the same overhead problems the Department faces today. Not many of the problems identified then have been solved. These problems are difficult, both inside and out of the Pentagon, and they require discipline over a number of years to fully address.

In some cases, you never get to the facts or merits because of the emotion tied up in issues. Frankly speaking, many are in what

some call the “too hard” box because about every three years either someone in the Pentagon or on the outside or both, conducts another study on trying to effectively address DoD’s overhead. Today the Task Group is identifying many of the tough choices that must be made, not only because it is good business management, but today's fiscal environment and future war fighting requirements will not tolerate these inefficiencies.

This Board has been recommending ways for the Department to improve its effectiveness and delivery of service for years. The Board's most important work to date was our advice for the Transition to the incoming 2009 Administration. In that report, the DBB articulated three existential challenges facing the Department that required immediate attention: (1) lowering the overhead cost, (2) slowing the ballooning acquisition costs, and (3) addressing the root causes of health care costs.

Our report today is an expansion of these most serious challenges to the Department.

PRESENTATION PURPOSE

The purpose of this briefing is to; outline the need to address the overhead challenge now; describe near-term opportunities for the Department to pursue; and outline longer term systemic fixes necessary to meet the Secretary’s goals.

There are four major themes surrounding the issue of overhead. First, because the Department has failed to establish adequate controls to keep overhead in-line relative to the size of the warfight, there has been an explosion of overhead work.

Second, in order to accomplish all this work, the Department has applied ever more personnel to those tasks which have added immensely to costs. Additionally, the majority of this new work appears to be done by contractors, the cost of which is nearly invisible to the Department as it is buried within Operations and Maintenance (O&M) accounts rather than in the more accountable personnel accounts. Finally, there is a sizable portion of the military who are performing both inherently governmental and non-inherently governmental work that could be more appropriately assigned to DoD civilians. The military are compensated at rates substantially greater than their civilian counterparts but, more importantly, they are needed at the “tip of the spear.”

SOME INITIAL OBSERVATION

While this Board and many others have for a number of years been pointing out the threat to our national security from our country’s fiscal posture, this topic is gaining momentum in the mainstream of the political dialogue. There seems to be a general recognition and agreement that you can’t have a strong defense on a weak economy. And there is a growing awareness that one of the toughest challenges DoD faces is how to preserve our combat structure and its readiness as well as our technological edge, with the ever increasing costs of personnel and the “tail” of those costs in deferred income and benefits which pay out more than a lifetime, coupled with the top-heavy overhead structure.

So it goes without saying that both Congress and DoD need to change their approach. Every study we have reviewed agrees

that there are world-class best business practices that are applicable to government and that could make a huge positive difference in meeting Secretary Gates' directive to reduce the Department's overhead and focusing on outputs vice inputs.

No business leader could manage a major enterprise without knowing the ratio of overhead to output. Some proven business management practices include; focusing on core functions and divesting those functions that are not core. It is rare that DoD divests any major activities. There are some real opportunities in the area of divesting non-core functions, but it will be extremely hard.

Other business management strategies include striking the proper balance between leadership and management; employing flat, flexible organizations; eliminating antiquated personnel systems and creating other relevant data collection systems; establishing tight controls on overhead personnel; requiring the use of performance-based goals in DoD's major business operations such as the Defense Agencies; utilizing a shared services approach, instilling a culture of savings; and ensuring that information and knowledge is widely-shared and finally establishing enterprise goals and making sure they are followed.

In that respect, we thought it important to establish a baseline of where the enterprise is today in terms of a number of the overhead activities, list some of the significant trends we found, and outline several that appear to us to be unsustainable.

WHAT THIS IS NOT

I also want to emphasize what we are reporting here today is NOT. It is not a criticism of current or past DoD leadership. These are complex and difficult issues and the dedicated and hard working Pentagon employees—military, civilian and contractor—don't come to work every day with the goal of making the situation worse. Just the opposite is true—the Pentagon is the most forthcoming about wanting to fix what is not working well and in providing information to efforts like ours to help. But the fact is you have to “go to war” every day to make progress on reducing overhead. We applaud Secretary Gates' leadership and willingness to take on an area that has proved so resilient to change in the past. I have called Secretary Gates a “bureaucracy buster” and he will never every ounce of his backbone of steel since most previous efforts have landed in the dustbin of history.

We have also been impressed with the commitment we see from his senior leaders like Bob Hale and Christine Fox and Michael Rhodes, the Joint Chiefs of Staff (JCS), and the leadership of the Military Departments in responding to the Secretary's direction. I certainly believe this time it's different, at least at the “take-off” and we all need to help ensure it will be different at the “landing.”

HISTORY OF DOD CHARACTERISTICS BY PRESIDENTIAL ADMINISTRATION

DoD and the Congress have historically focused more on what goes into the budget—the top-line such as how much is

allocated for procurement and research and development (R&D)—and not on the output—what are we getting for what we spend and answering the question: "Are we getting the bang for the buck our war fighters and taxpayers should expect for the dollars spent?"

In our view, the answer to that question is no.

It is useful to compare spending today to previous periods. Let's just look at the end of President' Carter's time when one of the key issues in his re-election campaign was the charge that the level of defense spending was insufficient. Compare what the Carter budgets bought then to what the much larger budgets are buying now and you will see the spending is way up, in constant or inflated dollars, and the outputs are way down, in some cases by 50%.

The same conclusion can be made when comparing the Reagan administration's budgets which were characterized as strong on defense. His budgets were only 7% less than today's budget yet it bought significantly more.

No matter how you count the size of the active military, the number of DoD civilians, the number of combat units, the size of the Navy fleet, the size of the fighter inventory--- all are much smaller today with much larger budgets. The Navy leadership underscored this trend. Most every one of their output measures are down 13% but costs are up 16%. All the savings from their reductions in end-strength, that were to fund more ships and bullets, were more than used up by increases in benefits for those who remained.

The Department's buying power continues to be significantly eroded and the taxpayer is paying "more for less." Many will be quick to point out, yes, smaller—but more capable. That is true yet the real issue should be how much more capable and why is it the output is so much less and does that output provide the necessary warfighting capability. We hope to provide some insights today.

SIGNIFICANT "MORE FOR LESS" TRENDS

Our Task Group observed some serious trends where the U.S. taxpayer is paying more for smaller output because the cost growth in personnel, in equipment, in force structure is "off the charts." Some of it is justified and some not. Our intent is to focus on the unjustified growth and encourage the Department to ask the tough questions of "why?"

The Department is even paying "more for more" of the same, especially when it comes to the overhead in the Defense Agencies, the Combatant Commands, the Office of the Secretary of Defense (OSD), and other organizations. These very large organizations continue to grow, some at an alarming pace and consuming staff and administrative support and other infrastructure expense.

Operations and Maintenance funds—an account that was historically key to military readiness- continues to grow at approximately 3% every year. The total this year at \$185 billion. However, more and more O&M funds appear to be used for purposes far removed from readiness.

There has also been an explosive growth in the number of DoD contractors.

It is impossible for any leadership to control costs and manage personnel if they don't know how many people work for them. Our Task Group tried to identify the number of contractors working for DoD both overall and in specific categories and at what cost. The Department is as frustrated as we are since there seems to be no precise answers. Under Secretary Carter just signed-out a document that pegs the number of contractors at approximately 766,000 at a cost of about \$155 billion. This exceeds the 745,000 civil service workforce. This does not include the intelligence organizations and we are told it is not a "high confidence" figure.

And finally DoD is encumbered by the cumulative weight of laws, rules, regulations, and directives that provide very little incentive-- and even less flexibility -- for the Department to implement sound business principles in overhead spending. Most of this flows from the Congress, particularly the way money is appropriated.

SIGNIFICANT UNSUSTAINABLE TRENDS

These trends have produced a number of areas that appear to be unsustainable given the nation's fiscal posture and the internal and external analysis of these areas. Our Task Group does not deserve any investigatory awards here as every one of the trends we are listing are well-know and documented.

The military personnel management system is anchored in a World War II "up-or-out" promotion system that provides little flexibility for modern practices or demographics. DoD has a military pay system that is based on time-in-grade and longevity vice skills and performance. Additionally, the Department retains a pre-volunteer force retirement system. This system encourages our military to leave at 20 years when they are most productive and experienced, and then pays them and their families and their survivors for another 40 years.

All of this has become more and more expensive as military entitlements have expanded. They should be considered as part of the nation's mandatory spending challenges.

And at a time when you hear that we are worried about dwell time and finding enough to serve overseas—we have over 340,000 military personnel serving in essentially civilian jobs—jobs that DoD itself characterizes as non-governmental.

And the record is replete with the creation of new organizations and staffs every time a new mission or problem arises.

And as I previously mentioned, the Department employs contractors at all levels, in all activities, with a less than desirable ratio to government employees. This should be reviewed more closely.

SIGNIFICANT OPPORTUNITY AREAS

And the last unsustainable trend is that DoD does not employ proven business practices and processes in the areas of huge

expenditure where American industry has proven conclusively that significant savings can occur. In total, from the most current federal procurement data for FY2009, DoD spends in the range of \$197 billion on services and \$179 billion on supplies and equipment; a total of \$376 billion through roughly 1,200 contracting activities. Areas like logistics and supply chain where DoD spends over \$190 billion a year and information technology which spends close to \$37 billion a year, and knowledge-based services where DoD spends \$52 billion. The serious application of proven business processes in these areas to reduce costs would be enough to meet Secretary Gates' targets well inside the five year target if applied with informed leadership and strong discipline.

Secretary Gates does not need the Defense Business Board to defend why he has taken on slaying this overhead dragon but given the enormity of the task and the emotion of the opposition that will occur, we felt that it is important to provide a framework for why it's imperative that Secretary Gates be successful and that he get the total cooperation of the building and the Congress. Base closing are "easy" compared to the road blocks that will be thrown-up once his decisions are made.

FEDERAL AND DOD SPENDING

The federal deficit is a national security threat. Current projections are that interest on the debt will be greater than the entire defense budget in 2017-- if no action is taken to change the current path.

This Nation's fiscal posture is being reviewed by many; the President's National Commission on Fiscal Responsibility, the Peterson Foundation, the Congressional Budget Office, Government Accounting Office. Just about anyone who understands basic arithmetic could look at this and come to the same conclusions we have. If we don't address the federal deficits and the interest on the debt, defense spending levels and our national security will be driven dangerously low, increasing vulnerability on all fronts.

DISCRETIONARY AND MANDATORY TRENDS

The Federal Government has been on a 40 year march towards fencing more and more of the ever increasing federal budget for mandatory spending vice discretionary. We know that defense remains the largest percentage of the discretionary budget. So, it does not surprise anyone that defense used to make up 40% of total spending and today is 20% of total spending. Compare this trend to the mandatory spending which was 20% and today is 40%. When net interest is included, the "fixed" portion of the budget is closer to 50%. Given these trends, one would expect defense spending to flatten or decline in the future.

We have to also acknowledge that within the defense budget that more and more of the money is "mandatory" for new benefits and entitlements. These are DoD "must pays" and really not discretionary. The Department's senior leaders cannot change these expenses as they are fixed in law. They are true entitlements and are so large today that they must be

acknowledged as such and considered in any comprehensive budget plan that addresses entitlements.

DOD'S BASE BUDGET

DoD's budget is approximately \$530 billion in the base budget with a total \$660 billion when adding in the cost of the wars. By the Department's own estimate, there is approximately \$200 billion in “overhead”—which over the five year plan is \$1 trillion. So, we applaud Secretary Gates for both his impressive actions and targets to find \$100 billion in these accounts over the coming five years. We think, however, the Department probably will need to be more aggressive in converting overhead costs into combat power to preserve the fighting capabilities necessary as the spending levels flatten out. It is not lost on budget watchers what is happening in the Fiscal Commission and that Congress has allocated \$8-10 billion less for fiscal year 2011 than the Administration's top line request. Our Chairman has asked our task group for recommendations for savings that exceed Secretary Gates' targets, and we will do our best.

DOD's OVERHEAD IN PERSPECTIVE

Because DoD's numbers are so large and people get somewhat desensitized, I wanted to try and put these numbers into perspective. DoD's overhead is much larger than many nations' entire gross domestic product—for example larger than the entire economy of Israel. And there are more people tied to DoD's overhead than live in the entire state of Rhode Island. And yet this economy is not run by sound business principles or market forces but thru Cold War era government processes that

do not lend themselves to making sure taxpayers get the most for every dollar spent.

Let's look at the specifics in the following categories of People, Personnel Costs, Organizations, and Benefits, Entitlements, and Deferred Compensation.

PEOPLE

ORGANIZATIONAL TOTALS

In terms of the number of personnel in OSD, the Joint Staff, the Combatant Commands and the Defense Agencies there are over a quarter million—240,000 people—and this does NOT include the very large contractor counts. The costs for these people are \$113 Billion. If you look at the bar charts, they show consistent growth from 2000 up to the present in 2010, as well as some projected future increases.

DOD MANAGEMENT LAYERS

We have known for years that the military structure of DoD institutionalizes layers of management. When you have lots of senior personnel, more layers follow. For example, when you have the top person in a layer- the head dawg- that person will have a "deputy dawg" and the "deputy dawg" will have a "deputy, deputy dawg" and so on. This chart is our depiction of the general construct. It is compelling that DoD needs to cut-out some management layers.

OSD STAFF SIZE

OSD mirrors these trends. When Secretary Cohen asked that this be looked in 1997, the Director of Administration reported that OSD was 2,000 people strong. We discovered an additional 1,000 people. Consequently, Secretary Cohen decided to reduce his organization back to the advertised level of 2,000 as the chart shows.

Against this base, today's OSD staff is now approximately 2,708. When you include the full-time reservists, detailees, and what OSD estimates to be the number of contractors, the staff count is over 5,000 as follows: the 2,636 government civilians and military, about 76 full time reservists, 381 over staffs or detailees, and over 2,000 contractors.

This organization spends approximately \$5.5 billion a year of which some of this is R&D and system costs for programs that OSD is running. And the FYDP currently has large projected increases, close to 20% of this total, unless decisions are made to go in another direction.

WHERE IS PRIVATE WALDO?

We also need to find out where DoD has its military personnel—the most expensive personnel whether from a recruiting and training and retaining standpoint or from a life-cycle standpoint. Our active duty military should be at the “pointed end of the spear” as much as possible since they are the only ones who can perform that role. And yet, we continually hear about the strains on the force, not having sufficient dwell time, and needing to cross level personnel to make up units. So,

we ask the question since we have 1.4 million active duty personnel—where is Private Waldo.

WHERE IS PRIVATE WALDO?

It is worth noting that of the 1.4 million total Active Duty Military, 340,000 were deployed as of this past May. That's 24% of the Active Duty force deployed with the remaining 76% in either dwell or in the overhead "tail" or other duties. This 76% number should be scrubbed hard by the Department to determine what activities they are performing. We are not suggesting the non-deployed are idle or not engaged in important work, but DoD needs to push every person possible over to the combat side.

COST OF MILITARY PERFORMING INHERENTLY NON-GOVERNMENTAL COMMERCIAL ACTIVITIES

The Department's own 2009 report of its FAIR inventory shows 339,142 Active Duty Military performing commercial activities. This is another area the Department must look at. Here, we are using the most expensive personnel to perform activities that could otherwise be performed by less expensive personnel. Furthermore, freeing-up the uniformed personnel makes them more available for the inherently governmental and military activities. By conservative estimates, if by removing even 10% of the 339,142 people from this category, the Department could free-up \$5.4 billion for combat purposes. This is one that is really hard to change as DoD has worked it from a "pick and shovel" standpoint in the past. I know that the current Vice Chairman of the Joint Chiefs of Staff, Hoss Cartwright --when

he was the J-8-- and that the previous heads of CAPE labored in this vineyard but they did not harvest enough of the grapes. This is one where we all know we need to improve; want to improve, have made some improvements, but have so far to go.

COST OF MILITARY IN DOD CIVILIAN ROLES

Let's pause one minute to distinguish the difference between military performing commercial activities and military performing civilian inherently governmental activities. This also should be reviewed carefully. Again, the most expensive personnel is being used to perform a job that could otherwise be performed by less expensive personnel.

ORGANIZATIONS

DEFENSE AGENCIES ARE BIG BUSINESS

Let's focus now on the Defense Agencies which have also grown in number and scope and costs. The point we are making is that these are not just Defense Agencies—these are very large business enterprises on today's scale. When you ask "who are DoD's largest contractors?" the usual suspects come to mind—Lockheed, Northrop, Boeing. Yet, in reality, the organization doing the most business with DoD is their own Defense Logistics Agency—who beats Lockheed's \$30 billion by \$8 billion for a total of \$38 billion.

In the top twelve largest businesses are five Defense Agencies, notwithstanding the intelligence community. Most of these Defense Agencies would rate in the Fortune 250 and several are

in the Fortune 50. Yet again, they are not managed as businesses even though one is a grocery business, another is a worldwide communications provider, another is one of the world's largest and most expensive health care providers.

DEFENSE AGENCY AND FIELD ACTIVITY PROBLEMS

The number one reason for these Defense Agencies being managed more as a business is that their total expenditures are in excess of 20% of the entire defense budget. Worse yet, for the most part, they are supervised by OSD civilian political appointees whose day-to-day jobs do not provide them with ample time for management and leadership. These entities lack strong, disciplined business leadership, performance management systems, and many are non-core to the essential missions of the Department.

In this area, our Task Group will focus on making recommendations to make the Defense Agencies more cost-effective and our likely conclusions will be consistent with every study done by the Pentagon that DoD needs to consolidate, eliminate, privatize, devolve, merge, as well as instill best business practices.

COMBATANT COMMANDS

Let's look at the Combatant Commands—the Department has added numerous Combatant Commands over the last 20 years yet there appears to have been no equivalent trades in the Military Departments to stand-up these organizations as the new

CoComs grew. CoComs are important, such as U.S. Central Command which is running the wars in Iraq and Afghanistan. Yet, the estimated 98,000 people including contractors costing \$16 Billion is an area that must be reviewed, both in the CoCom and the Military Departments for redundancies and duplication. By comparison, these expenses are larger than the entire State Department or NASA budgets.

And to foot-stomp the contractor issue more, it appears that Joint Forces Command (JFCOM) now has more contractors on its payroll than government military and civilian personnel.

JFCOM'S OWN JOINT COMMANDS

For example, Joint Forces Command appears to own its own multiple "joint commands." Some of the organizations on this chart appear to have almost the same name and mission.

We now have NORTHCOM as a combatant command with focus on the homeland and this command could some of the JFCOM mission. We would hope the Chairman of the Joint Chiefs is looking closely at the possibility of the eliminating redundancies and duplication not only in the Combatant Commands but consider what the Military Departments could do within their existing capabilities.

MOST INFRASTRUCTURE IS IN THE MILITARY DEPARTMENTS

Regardless of everything mentioned to this point: OSD, the Defense Agencies and the Combatant Commands, the vast

majority of DoD's infrastructure resides in the Military Departments—at least 70%.

There are literally hundreds of thousands of personnel in installations, and central logistics and training and personnel administration and in management headquarters, and in acquisition of systems. This is clearly a target rich environment that can become more efficient and effective. I would hope that for example the Air Force is looking at the three separate buying commands that are engaged in space systems. It probably made sense in the peak of the Cold War when we were buying large numbers to have the National Reconnaissance Office, the Space and Missile Command, and Air Force Material Command all involved in buying similar systems. But do we really need three today?

BENEFITS, ENTITLEMENTS, & DEFERRED COMPENSATION

OUTLAYS FOR MILITARY PERSONNEL

One area of personnel cost that DoD can produce a number is how much it costs for military personnel and how much those costs have escalated in recent times. This is a subject that gets reduced to “whispers” inside the Pentagon, yet needs to be brought out into the open. There needs to be a recognition first of just how much these costs are and then whether or not the nation's leaders in the Pentagon and Congress want to put their hands on the helm or leave it on auto-pilot.

Typically advocates for military pay and benefits focus on the individual's paycheck and ignore the long-term, fully burdened costs of the most expensive personnel.

We know that there are unique aspects to being in the military. I spent thirty-five years in uniform and know first-hand the sacrifices the military and their families make. We know we could never match with a paycheck what they earn in wartime.

Yet, we must recognize that the costs are significant and that most of the management policies and strategies for the personnel and pay systems and compensation schemes are being questioned more and more by those inside the Pentagon and in Congress. People question not only their "affordability," but whether or not they will produce the force that is required to meet current and future threats since most were started in the Cold War.

We also must recognize that a substantial amount of the personnel costs are focused on those who no longer serve on active duty. From a total government perspective, personnel totals, excluding the Veteran Administration (VA), are over \$100 billion dollars a year. Adding the VA, the total is closer to \$175 billion. These trends have senior military leaders asking tough questions behind closed doors. The GAO has questioned whether or not the "increasingly costly military compensation system is reasonable, appropriate, affordable, sustainable, and fiscally sound over the long term" and said that "it is unlikely." Speaking for myself and not the Board here, based upon the analysis I have seen, I agree with the GAO that it is "not likely." In flat or declining budgets, the alternative to these current DoD

mandatory expenses is a much much smaller active duty force, or much smaller procurement and R&D or declines in all categories.

CHANGES IN MILITARY PAY AND BENEFITS PER ACTIVE DUTY TROOP

The relationship between the active duty end strength to certain elements of compensation must be considered. These numbers mirror some landmark analysis by GAO under David Walker where they point out that the non-cash and deferred element of military compensation was approaching 50% of a service person's pay. This is significantly higher than normal compensation practices.

You can see from this chart some of the elements that make up those costs whose totals have grown in FY01 from around \$100 billion to close to \$200 billion in FY10 – almost double in 10 years. At these rates, where will this trend lead us?

The average cost of a full-time military equivalent has gone from approximately \$60k in the first years of the Bush administration to \$206k today. In fact some military department analysis puts the fully loaded costs at \$240k. This again is an area where the GAO says it's extremely difficult to get the right numbers except for the upward trend.

CONGRESSIONAL ACTIONS SHAPE THE COMPENSATION BILL

Congress continues to be very generous to our military and the added costs of the number of new benefits including the decision to repeal the only true reform of the military retirement system is skyrocketing as shown here. In 1986, Congress recognized military retirement as the largest unfunded liability of the federal government.

There was concern that it might get axed in the then Gramm-Rudman-Hollings "cut" environment and there was recognition that our most experienced people were needed longer. So, Congress reformed military retirement--- grandfathering everyone for 20 years. When the new system was about to go into effect in 2006 and save substantial sums of money and keep people longer, based on the prodding of the Joint Chiefs, and the military lobby, Congress changed it back. Any projected savings were lost. Congress also added "Tricare for life" which is the most expensive new health care benefit in our country. The point is that well-meaning decisions not only add-up but have huge future costs which typically are not considered at the time they are created.

MILITARY RETIREMENT

Numerous studies in recent years conclude that DoD must reform the current military retirement system. Even DoD's own Tenth Quadrennial Review of Military Compensation (QRMC) concluded changes were needed. And again in the "whispering rooms" of the Pentagon, our senior military know this well. This should not surprise us because no less an expert as Thomas Gates who led the commission that recommended doing away with the draft and going to the volunteer force in 1970

proclaimed that the country would not be able to afford the volunteer force unless the country eliminated the 20 year cliff vesting military retirement system, changed the “up or out” promotion system, and changed the military compensation system. And we have changed none of that.

We now have 1.9 million retirees-- up over 500,000 in just the last two decades. The Department of Treasury pays out \$46 billion a year in just their paychecks. And we spend tens of billions more on retiree health care. And who gets this non-contributory retirement payments. Not most of those who served in WWII, or Korea or Vietnam or the Cold War or the recent active wars because almost 80 percent of those who join our military never earn a nickel in military retirement because they don't stay in for 20 years. Only about 17 percent of those who join the military ever achieve 20 years of active service.

This very small percentage of retirees serve on average at career year 23 or less, take advantage of being able to go onto second and third careers at age 41-45 and draw retirement pay for 40 more years as well as healthcare for life and access to many other benefits (i.e., subsidized commissaries) . This is why I said earlier that it is an unsustainable trend to have to pay people for 60 years to serve for 20 years, with their survivor benefits so if they die their families continue the benefits until they die.

This is a long-term problem that requires discipline and a firm focus on a plan to address the issue over the next 20 years; otherwise, it is simply postponing the inevitable and increasing the costs as reform is delayed, taking money away from the current warfighting force. We need to get back to the old slogan

of “praise the Lord and pass the ammunition” versus “praise the Lord and pass the benefits.”

CONCLUSIONS

BEST BUSINESS PRACTICES FOR IMMEDIATE CONSIDERATION

In summary, our group has four suggestions to kick-start the discipline on overhead. First, initiate a hiring freeze accompanied by a new tough headcount control processes. Start with OSD, the Joint Staff, the Combatant Commands, and the direct reports to the Secretary. Establish a high-level process to track and control military, civilian, and contractor head counts and their costs denominated by full-time equivalents. Additionally, direct the Military Departments to do the same. Also, reduce civilian workforce levels to the fiscal year 2003 baseline or 15% whichever is greater. This takes into account some needed changes after 9/11. And most importantly, find out how precisely many people the Department has on the contractor payroll and assess their functions as core or non-core. This count should be more in line with “morning **musters**” and not based more on models and algorithms.

Second, eliminate organizational duplication and overlap. Focus first in areas such as OSD and the Joint Staff in shared areas such as public affairs, legislative affairs, legal affairs, and personnel oversights. Other areas include cables service, the Joint Staff/Cost Assessment and Program Evaluation (CAPE), and Joint Readiness Oversight Council (JROC), and inside the

Office of the Undersecretary of Defense for (Acquisition, Technology, and Logistics).

Third, downsize the Combatant Commands beginning with the elimination of the JFCOM, streamline other commands, and do the same for all OSD organizations, particularly the elimination of Networks and Information Integration, the successor to the original command, control, communications, and intelligence organization. There are opportunities to eliminate more than one combatant command and more than one OSD organization.

Finally, effective immediately, seriously curtail all indirect spending. Include in these cuts the expense of frequency of duty station moves, travel, conferences, and modify the end of year "use it or lose it" policy which only promotes waste. Again, here, Congress appropriates money in ways that encourages some bad practices.

FINDING THE \$100 BILLION

While DoD's near term goal is to achieve \$7 Billion in savings, the harder task is to find the gains sufficient to reach the \$100 Billion goal in five years.

Much of the initiatives just briefed will take years to develop and years more to begin to harvest the benefits and savings. This work will require managing in parallel the harvesting of near-term efficiencies and cost savings along with the initiation of these just discussed major reforms to control work and redefine the compensation of uniformed and contract personnel. Without immediate action and long-term discipline, the

Department will not have sufficient active duty military or be capable to properly train, equip, and operate to successfully defeat our Nation's enemies.”

We close by saying this is not about cutting the top-line --- it’s about converting overhead to combat for the next five years, instituting process and organizational reforms that will yield immediate, as well as future, savings over a longer-term, and changing antiquated personnel and benefit policies that will provide the active duty combat force required twenty years from now.